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MEMORANDUM

DATE: December 10, 2002

TO: Metropolitan King County Councilmembers

FROM: Cheryle A. Broom, County Auditor

SUBJECT: Special Study of District Court Revenues

Attached for your review is the Special Study of District Court Revenues. The study objectives were to examine possible ways of enhancing current revenues for the King County District Court and determine if other types of fees or revenue-generating methods used by other courts can be applied to the District Court.

The general study conclusion is that most of the fees are set by the state; and fees charged by the District Court compared to other district courts in the state are almost the same type and levels of fees. Other revenues such as court cost recoveries are as ordered by the court. However, we identified and recommended two potential sources of revenues that will provide additional revenues of about \$106,000 to \$257,000 a year. Potential sources of new revenues are passport photo services and a filing fee for returned documents.

Responses by the Presiding District Court Judge and the County Executive are summarized in the report summary section and also contained in their entirety in the appendices. The Presiding District Court Judge's response to the study concurred with the findings and recommendations. Likewise, the executive's response generally agreed with the study findings and recommendations.

The executive's response expressed concern over the practicality of routinely and timely recording of court accounts receivable because the details of accounts receivable are maintained in the District Court Information System (DISCIS) that is not set up to interface with the county's accounts receivable system. We discussed this issue with the Office of the Administrator for the Courts (OAC) which manages the Judicial Information System. As we were advised, the King County District Court filed with OAC a change request for enabling the DISCIS to interface with King County's financial system. If the change can not be realized, the Finance and Business Operations Division, in partnership with the District Court, should explore other options. One alternative that the executive mentioned in his response is to develop a separate accounts receivable system for District Court that interfaces with the county's general ledger system.

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SPECIAL STUDY

DISTRICT COURT REVENUES



Presented to
the Metropolitan King County Council
by the
County Auditor's Office

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Report No. 2002-04
December 10, 2002

Mission Statement

The King County Auditor's Office performs objective, high quality, and useful performance and financial-related audits and special studies that assist the Metropolitan King County Council in its oversight of county government operations, improve the cost-effectiveness of county services, and promote accountability.



The King County Auditor's Office was created in 1970 by the King County Home Rule Charter as an independent agency within the legislative branch of county government. Under the provisions of the charter, the County Auditor is appointed by the Metropolitan King County Council. The King County Code contains the policies and administrative rules for the Auditor's Office.

The King County Auditor's Office provides oversight of county government

through independent audits and other studies regarding quality and efficiency of agencies and programs, program effectiveness, and integrity of financial management systems. The office reports the results of each audit or study to the Metropolitan King County Council.

The King County Auditor's Office performs its work in accordance with applicable Government Auditing Standards, with the exception of an external quality control review.



Audit and study reports are available on our website (www.metrokc.gov/auditor) in two formats: entire reports in PDF format (1999 to present) and report summaries (1992 to present). Copies of reports can also be requested by mail at 516 Third Avenue, Rm. W-1020, Seattle, WA 98104, or by phone at 206-296-1655.

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REPORT SUMMARY

Introduction

This study of the District Court Revenues was included in the Auditor's Office 2002 work program. The Metropolitan King County Council requested the review to examine the potential for raising additional revenue through the King County District Court to offset operating costs funded by the county's current expense (CX) fund.

Background

The King County District Court is the county's court of limited jurisdiction. It has jurisdiction over criminal, non-criminal traffic, small claims, and civil cases of up to \$50,000.

District Court revenues are comprised of fines, forfeits, penalties, court cost recoveries, charges for services, and shared court costs for adjudicating city-filed cases. These revenues are collected by the District Court as a part of King County's current expense resources.

Study Objectives and Scope

The study objectives were to examine possible ways of enhancing current revenues generated by the King County District Court and determine if other types of fees or revenue-generating methods used by other courts can be applied to the District Court.

The study reviewed the District Court's current practices for collecting and accounting for revenues. This included monitoring of receivables and unfunded state mandates. We also looked at efforts by the District Court to identify other potential income sources. We compared the District Court's fee levels to those of other jurisdictions or courts in the state.

**General Conclusions
and Recommendations**

We found that most of the fees are set by the state, and the fees charged by the District Court compared to other district courts in the state are generally the same type and levels of fees. Other revenues are as ordered by the court.

We identified and recommend to District Court two potential sources of revenues that should provide additional revenues of about \$106,000 to \$257,000 a year. These are:

1. Passport Photo Services – should generate an annual profit of about \$82,000 to \$145,000.
2. Handling fee for returned documents - should provide additional revenue of about \$24,000 to \$112,000 a year.

Also, the Finance and Business Operations Division should establish a performance-based contract for collection services, and enter all receivables in a timely manner.

SUMMARY OF FINDINGS AND RECOMMENDATIONS

Finding 1 (Page 7)

Passport photo services can provide additional revenues to District Court.

The King County District Court currently processes passport applications, but applicants must bring their own photos to be submitted with the application. Based on our research, the photo service activity is economically feasible and can provide convenience for passport applicants. We estimate that passport photo services could generate an annual profit of \$82,000 to \$145,000 for the District Court depending on the amount of time required to take and process each photo set.

Because of the recent and upcoming staff reductions and the resulting need to realign duties among remaining staff, District Court management believes it would be difficult to add new tasks

to existing workload at this time. They also indicated that other operational issues need to be addressed prior to implementing a passport photo service. However, District Court management is committed to reviewing the feasibility of implementing the service in April 2003, in preparation for the 2004 budget process.

The study recommends that the District Court develop an implementation plan for providing photo services to its customers who are applying for passports.

Finding 2 (Page 9)

A filing fee for returned documents will provide more revenues to District Court.

Management of the District Court estimates that about 30% of the files processed by the District Court clerks were faulty and/or incomplete; thus, the papers were returned to the submitting parties. They also indicated that most of the documents or files returned to submitting parties are civil cases filed with the court.

The District Court currently does not charge the submitting party a fee for refiling previously filed faulty and/or incomplete documents. If fees were charged, our calculations show that fees for handling returned documents when they are refiled with the court could provide additional revenue of about \$24,000 to \$112,000 a year.

The study recommends that the county seek authorization from the state legislature to impose an extra handling fee for refiling previously filed and returned documents which were erroneous and/or incomplete.

Finding 3 (Page 13)

The current contract for collection services has no performance measures or benchmarks to evaluate performance of the collection agency.

The county referred for collection 35,428 delinquent accounts with a dollar value of \$14,745,131. Of this amount, the collection agency collected \$4,980,393 or 33.8%.

We were not able to evaluate whether or not the performance of the collection agency meets the county's expectations because the county has not established performance targets or benchmarks for collection services.

To strengthen the Finance and Business Operations Division's (FBOD) efforts in promoting achievement of a high collection rate, **the study recommends** that the contract for collection services include appropriate performance measures in contracts with collection agencies and that the county use them to evaluate contractor performance.

Finding 4 (Page 15)

Time-pay and non-time-pay accounts are not maintained in the county's accounts receivable and financial systems.

Receivables from non-time-pay and time-pay accounts are not routinely recorded in the accounts receivable and financial systems. FBOD records these receivables in the financial statements only at the end of the year. Moreover, the accounts receivables from non-time-pay and time-pay accounts from city-filed cases are not recorded in the county's accounts receivable and financial systems at all.

To enhance consistency in recording receivables and provide better management control of receivables, as well as to conform to generally accepted accounting principles, **the study recommends that** the FBOD routinely and in a timely manner record all receivables from time-pay and non-time-pay accounts in the county's accounts receivable and financial systems.

**Summary of Presiding
District Court Judge
Response**

The court is open to the possibility of providing passport photo services and will be conducting a cost/benefit analysis as part of its preparation for the 2004 budget.

The court would like to seek authority from the state legislature allowing the courts of limited jurisdiction to assess a fee for returned documents.

The court agrees that the contract for collection services should include performance measures or benchmark to evaluate performance of the collection agency. This will be addressed in the upcoming request for proposal for the collection contract.

The court concurs with auditor's recommendation that FBOD should record time-pay and non-time-pay accounts with frequency to enhance consistency in accounting for court accounts receivables.

Auditor's Comments

Based on our recommendation, the Council's Government Relations staff has drafted state legislation to be introduced in the 2003 session. The legislation will authorize the courts of limited jurisdiction to impose an additional fifteen-dollar fee for filing revised or corrected documents.

Regarding the accounts receivable recommendation, the court wants the FBOD to keep these accounts receivable current. In November 2002, the King County District Court filed a change request with the Office of the Administrator for the Courts. The

change request, subject to approval of the Judicial Information System (JIS) Advisory Committee, proposes to have the District Court Information System¹ (DISCIS) interface with the county's financial systems. This will enable a convenient transfer of accounts receivable data from the DISCIS to the county's financial system.

Summary of Executive Response

The executive agrees with the auditor's recommendation that contract with collection agency should include performance measures to evaluate performance of the collection agency. In future requests for proposals, FBOD will include performance measurement requirements that include, but are not limited to: reasonable and appropriate quarterly recovery expectations in negotiations with the collection agency; quarterly performance reports; realistic and relevant account data; and performance indicators with recovery rates for similar governmental clients.

The executive agrees that it would greatly enhance District Court's accountability by routinely and timely recording all receivables from non-time-pay accounts in the county's accounts receivable and financial systems. The response indicated that this is difficult to achieve, because DISCIS is not a financial system and is not set up to interface records into the county's accounts receivable system.

Auditor's Comments

As noted above, District Court has filed a change request with the Office of the Administrator for the Courts to explore the possibility of its information system (DISCIS) interfacing with the county's financial system. This request is subject to approval by the JIS Advisory Committee. If the change in the DISCIS can not be realized, the FBOD should explore other alternatives such as developing a separate accounts receivable system for District Court that interfaces with the county's general ledger.

¹ A state-operated computerized information system for the courts.

As indicated by Presiding Judge of District Court, the court wants the FBOD to maintain its time-pay and non-time-pay accounts with frequency to enhance consistency in accounting for its accounts receivables.

Acknowledgment

The Auditor's Office appreciates the cooperation received from the management and staff of the District Court and Finance and Business Operations Division.

1 INTRODUCTION

Introduction

This study of the District Court Revenues was included in the Auditor's Office 2002 work program. The Metropolitan King County Council requested the review to examine the potential for raising additional revenue through the King County District Court to offset operating costs funded by the county's current expense (CX) fund.

Background

The King County District Court is the county's court of limited jurisdiction. It has jurisdiction over criminal (misdemeanors, gross misdemeanors, and traffic cases), non-criminal traffic, small claims, and civil cases of up to \$50,000 for all unincorporated King County and incorporated cities that contract with the King County District Court for court services. Preliminary hearings for felony cases are also within the jurisdiction of the District Court.

District Court revenues are comprised of fines, forfeits, penalties, court cost recoveries, charges for services, and intergovernmental revenues such as shared court costs. These revenues are collected by the District Court as a part of King County's current expense resources. Generally, court fees and assessments are set by state law; other revenues are as ordered by the court or approved by the Metropolitan King County Council. The revenue from shared court costs is income earned by the District Court for adjudicating city-filed cases. The county currently has interlocal agreements with 25 incorporated cities for the provision of district court services. As payment for court services, the county retains 75% of the local court revenues (fines, forfeited bail, penalties, court cost recoupment, and parking ticket payments derived from city-filed cases) and the cities receive the remaining 25%.

Depending on the type of fees and charges collected by the District Court, court revenues are split with the state of Washington and other jurisdictions' designated funds. For example, civil filing fees collected by the District Court are split among four funds:

• State Crime Victim Fund	1.20%
• Law Library Fund	19.37%
• State Public Safety and Education Assessment Fund	32.00%
• King County Current Expense Fund	<u>47.43%</u>
TOTAL	100.00%

In 2001, the District Court generated revenues to the county's current expense fund totaling \$12,276,000 (net of amounts distributed to state and other jurisdictions' funds), details of which are shown in Exhibit A.

EXHIBIT A	
District Court Revenues	
Year 2001	
Intergovernmental Payments	\$2,752,443
Charges for Services	4,152,923
Fines and Forfeits	5,222,030
Miscellaneous Revenue	148,742
TOTAL REVENUES	\$12,276,138

SOURCE: ARMS reports, 13th Month

Study Objectives

The study objectives were to examine possible ways of enhancing current revenues generated by the King County District Court and determine if other types of fees or revenue-generating methods used by other courts can be applied to the District Court.

Study Scope and Methodology

The study reviewed the District Court's current practices for collecting and accounting for revenues. This included monitoring

of receivables and unfunded state mandates. We also looked at efforts by the District Court to identify other potential income sources and conducted a follow-up review to determine the status of recommendations from our 1988 audit, District Courts Time-Pay Collections Clerks. That audit found that the District Court could potentially raise additional revenues by charging an administrative fee on payments of fees, penalties, and fines paid over time.

During the review, we compared the District Court's fee levels to those of other jurisdictions or courts in the state (e.g., King County Superior Court).

Finally, as part of our study process, we reviewed the work of the State Auditor's Office relating to internal controls over revenue and cash handling procedures of the nine divisions of the District Court. Based on the State Auditor's work, there was no compelling need for us at this time to conduct a similar review of District Court internal controls.

It should be noted that the accounting, collection, and other financial data that we obtained during the study process were not audited by us, and accordingly, we do not express an opinion or any other form of assurance of them.

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2 REVENUE ENHANCEMENT MEASURES

Introduction

This chapter summarizes recent revenue enhancements implemented by the District Court and identifies two potential revenue enhancement sources that could provide additional revenues to the current expense fund of about \$106,000 to \$257,000 a year.

The CX fund provides funding for operations in the county's law, safety, and justice programs, including the King County District Court. As a result of recent projected deficits in the current expense fund, the District Court has significantly reduced staff, restructured its administration, and explored ways to increase its revenues.

Exhibit B shows District Court revenues and expenses from 1997 through 2002.

EXHIBIT B

District Court Revenues and Expenses 1997 through 2002

	Revenues	Expenses	Percentage Increase	
			Revenues	Expenses
1997	9,848,000	15,622,000		
1998	10,447,000	16,722,000	6.08%	7.04%
1999	10,955,000	18,342,000	4.86%	9.69%
2000	11,707,000	19,666,000	6.86%	7.22%
2001	12,276,000	21,006,000	4.86%	6.81%
2002*	14,038,000	19,229,000	14.35%	-8.46%

* Projected by Court Management for 2002

SOURCE: ARMS Reports, 13th Month

In the last five years (1997 to 2001), District Court expenses increased annually at a faster rate than revenues, i.e., 7.7% vs.

5.7%. However, this trend is not expected to continue as indicated by the projections for 2002 and recent measures to reduce expenses and increase revenues.

The audit staff reviewed some activities for which the court charges fees. We also conducted research relating to the fees that are being charged by other jurisdictions or courts.

We found that since most of the fees are set by the state, the fees charged by the District Court compared to other district courts in the state are generally the same type and levels of fees (see Appendix 1). However, there are differences in the levels of fees charged by the District Court when compared to King County Superior Court. This is mainly due to different levels of fees established by the state for district courts and superior courts.

New Court Revenues in 2002

In response to the provisos² of the 2002 adopted budget, the District Court presented to the council in April 2002 various measures that would increase revenues and decrease costs of court operations. The court presented the following measures that were implemented in 2002 to increase the revenues of the court in 2002 and succeeding years.

Probation³ Fees

The District Court raised the probation compliance fee from \$120 to \$240 a year and the monthly probation fee from \$50 to \$65 effective July 1, 2002. Court management projects that these increased fees will bring new revenues of about \$492,000 for six months in 2002 and \$1 million in 2003.

² Ordinance 14265

³ As ordered by the court, offender is required to go through pre-sentence report and/or probation supervision. Offender pays probation monitoring fees.

Passport Execution Fees

On behalf of the United States Department of State, the King County District Court processes applications for US passports. The District Court collects \$15 per application as an execution fee. Effective August 19, 2002, the Department of State increased the execution fee to \$30. The District Court estimates that the fee increase will generate about \$262,000 in additional revenues from mid-August to end of the year 2002 and about \$373,000 in 2003.

FINDING 1**Passport photo services can provide additional revenues to District Court.**

The King County District Court currently processes passport applications, but applicants must bring their own photos to be submitted with the application. District Court estimates that they will process 34,015 passport applications during 2002.

We found that the District Court could generate new revenues by providing photo services to passport applicants. We contacted five other public agencies in Washington State that provide passport photo services. All of them indicated that providing the photo services generates a profit for their agency. The rates charged for the service ranged from \$10 to \$15 per photo set (two photos are required for each application), and average \$12.20 per photo set. The agencies generally set their rates by using the average of what nearby commercial firms charge for the service. Four of the agencies estimated that about half of the passport applicants use the agencies' photo services; one estimated that about 80% of the applicants use the service. Two of the agencies stated that the amount of additional time to provide the service was minimal, approximately 2-3 minutes per photo set. The agencies all used one of two types of equipment: a special Polaroid passport camera or a digital camera.

Based on our research, the photo service activity is economically feasible and can provide a one-stop convenience for passport applicants.

Exhibit C shows the results of our calculations.

EXHIBIT C			
Estimated Annual Revenue From Providing Passport Photo Services			
	Estimated Labor Time		
	10 Minutes	5 Minutes	3 Minutes
Estimated Annual Revenue	\$187,083.00	\$187,083.00	\$187,083.00
Less Annual Equipment Costs	(954.63)	(954.63)	(954.63)
Less Annual Materials Costs	(13,916.39)	(13,916.39)	(13,916.39)
Less Annual Labor Costs	(90,041.76)	(45,020.88)	(27,012.53)
Equals Estimated Annual Profit	\$82,170.22	\$127,191.10	\$145,199.45

SOURCE: Audit Staff Calculations

Exhibit C shows that adding passport photo services could generate an annual profit of \$82,000 to \$145,000 for the District Court, depending on the amount of time required to take and process each photo set.

We discussed this potential revenue source with District Court staff. Because of the recent and upcoming staff reductions and the resulting need to realign duties among remaining staff, District Court management believe it would be difficult to add new tasks to existing workload at this time. They also indicated that there are labor and worksite configuration issues that need to be addressed prior to implementing a passport photo service. However, District Court management committed to reviewing the feasibility of implementing the service in April 2003, in preparation for the 2004 budget process.

RECOMMENDATION

- 1-1** The District Court should develop an implementation plan for providing photo services to its customers who are applying for passports.

FINDING 2**A filing fee for returned documents will provide more revenues to District Court.**

Fees for handling returned documents when they are refiled with the court could provide additional revenues to the current expense fund of about \$24,000 to \$112,000 a year.

The District Court clerks receive documents or a file from the attorneys and the public. When the documents are processed, they are checked for technical accuracy and completeness. If the documents are properly completed, they are accepted. If the documents are faulty and/or incomplete, the submitting party is notified by phone and the papers are sent back to him or her with reasons for the deficiency and procedures for resubmitting corrected documents.

Management of the District Court indicated that most of the documents or files returned to submitting parties are civil cases filed with the court. They estimated that about 30% of the files processed by the District Court clerks were faulty and/or incomplete; thus, the papers were returned to the submitting parties. In 2001, the state and county court records showed that there were 25,000 civil cases filed with the District Court. Of these documents filed with the court, about 7,500 represent files that were processed, returned, and refiled.

Interviews with management and some clerks of the District Court and the results of a consultant's clerical staffing study in 1998 indicated that the processing and returning of the documents filed with the court may range from 6 to 15 minutes or a clerical cost of \$3.18 to \$7.95 per file.

The District Court currently does not charge the submitting party a fee for refiling previously filed faulty and/or incomplete documents. Through the Department of Judicial Administration, the King County Superior Court assesses fifteen dollars for documents returned to cover the costs for the extra handling of the documents.⁴

Because most fees charged by the district courts are governed by state law, the assessment of an extra handling fee would require approval by the state legislature.

RECOMMENDATION

- 2-1** The county should seek authorization by state legislation to impose an extra handling fee for refiling previously filed and returned documents which were erroneous and/or incomplete.

Previous Audit Recommendation – Fee for Time-Pay Account

The King County Auditor's recommendation to the District Court in 1988 (Report No. 88-4) to consider charging fees for each time-pay account arrangement is not applicable at this time. The time-pay account set up, collection, accounting, and reporting are handled by a collection agency who collects and retains the set up and monitoring fees. Consequently, the county incurs no cost to set up and administer time-pay accounts.

⁴ KCC 4.71.100

3 ACCOUNTING FOR AND COLLECTION OF RECEIVABLES

Background

This chapter discusses the accounting for and collection of District Court receivables. District Court had \$41 million in receivables at the end of last year, 81% were comprised of accounts which were more than one year old, and the likelihood of the accounts being collected is estimated to be from 3.5% to 14%. We were not able to evaluate whether the performance of the collection agency that handles delinquent accounts meets the county's expectations because the county has not established performance targets or benchmarks for collection services.

It is in the best interest of the county to maximize the collection of the county's delinquent accounts receivable. The collection of District Court fines, fees, and penalties which have become delinquent is essential to the maintenance of the court's credibility and fairness to the people of King County.⁵ The collection of these outstanding financial court obligations is performed by three agencies: the Finance and Business Operations Division (FBOD) of the Department of Executive Services, the nine divisions of the District Court, and a collection agency under contract with the county.

The FBOD, through the Automated Invoicing & Receivable Systems, bills and collects current probation fees. The divisions of District Court collect the remaining current fees, fines, forfeits, penalties, and cost recoveries. These receivables become delinquent when they are 31 days or more past the due date. The collection agency collects⁶ the delinquent probation fees; the

⁵ Council Motion No. 7792

⁶ As part of the contract, the collection agency also collects delinquent accounts for other county agencies, e.g., Office of Public Defense, Solid Waste Division, Roads Services Division, and Department of Development & Environmental Services.

other or remaining delinquent fees, fines, forfeits, penalties, and cost recovery charge; and the current time-pay accounts (debtor has arranged payment of account at specific time and defined amount). The collection agency generally remits electronically the collection proceeds and provides reports to the nine divisions of the District Court and to the FBOD.

As shown in Exhibit D, the District Court had accounts receivable, including the state portion, of \$40,971,000 as of December 31, 2001.

EXHIBIT D
Accounts Receivables – Non-Time Pay, Time Pay, and Probation
2001

Age of Receivables	Non-Time Pay	Time Pay	Probation	Total	Percentage
1-30 days	\$437,075	\$1,809,317	\$172,332	\$2,418,724	5.90%
31-60 days	355,492	162,999	103,138	621,629	1.52%
61-90 days	359,225	117,600	90,040	566,865	1.38%
91-180 days	1,050,815	190,675	253,920	1,495,410	3.65%
181-365 days	2,017,960	301,127	473,714	2,792,801	6.82%
More than 365 days	28,340,012	226,169	4,509,174	33,075,355	80.73%
	\$32,560,579	\$2,807,887	\$5,602,318	\$40,970,784	100.00%

SOURCE: FBOD and District Court Information System (DISCIS) Summary Reports.

Exhibit D shows that \$33,075,000 or 81% of the accounts receivables were more than a year old. The largest portion of this amount was with the former collection agency and was transferred to the collection agency currently under contract with the county.

The chance of collecting receivables diminishes as they age. The FBOD estimates that only about 3.5% to 14% of the accounts which are more than one year old are collectible.

FINDING 3**The current contract for collection services has no performance measures or benchmarks to evaluate performance of the collection agency.**

In October 2000, the county awarded a contract to a collection agency to collect delinquent accounts receivables. For the bid process, the bid documents asked for vendors' performance capability which included:

- Specific and detailed plan of collection services.
- Technological capability and resources to perform scope of services.
- Documentation which supports agency's ability to successfully perform collection services.

In reviewing the bid proposals, the county used four criteria to evaluate vendor's past collection performance (i.e., recovery factor):

- Dollars collected to dollars referred.
- Number of accounts fully collected to total accounts referred.
- Number of accounts partially collected to total accounts referred.
- Percentage of collections for referred accounts within 30, 60, 90 days, and beyond.

Exhibit E shows that the county referred for collection 35,428 delinquent accounts with a dollar value of \$14,745,131. Of this amount, the collection agency collected \$4,980,393 or 33.8%.

EXHIBIT E
Assigned Accounts and Collections

Collections	Accounts Assigned	Amount Assigned	Collections	Percentage Collected
Probation Accounts	1,306	\$929,992	\$108,676	11.7%
Non-Time-Pay Accounts	34,122	13,815,139	4,871,717	35.3%
TOTAL	35,428	\$14,745,131	\$4,980,393	

SOURCE: Finance and Business Operations Division (FBOD)

We were not able to evaluate whether or not the performance of the collection agency meets the county's expectations because the county has not established performance targets or benchmarks for collection services.

We were also unable to determine if other district courts have performance measures to evaluate collection agencies under contract to them. Some district courts that we contacted did not respond to our requests; other sources (e.g., collection agencies associations) did not have published performance measures and/or benchmarks for collecting delinquent accounts.

However, we were able to review the current collection agency's historical performance data with other court jurisdictions in the state. The data was gleaned from the documents that were submitted to the county during the bid process in 2000. The audit staff noted that the collection agency's recovery rate of 33.8% for King County District Court was better than what the agency reported as its recovery rate at other jurisdictions, which ranged from 13.16% to 27.94%.

To strengthen FBOD's efforts in promoting achievement of a high collection rate, the contract for collection services should include specific performance measures which include recovery rates for current (time-pay) and delinquent accounts delineated by type and age of receivables. Performance targets could be based on historical trends or industry standards, if they exist.

RECOMMENDATION

- 3-1** The FBOD, in coordination with the District Court, should include appropriate performance measures in contracts with collection agencies and use them to evaluate contractor performance.

FINDING 4**Time-pay and non-time-pay accounts are not maintained in the county's account receivable and financial systems.**

To follow GAAP (generally accepted accounting principles), accounts receivable should be recorded as assets in the balance sheet at net realizable value. Net realizable value is equal to gross amount of receivables less an estimated allowance for uncollectible accounts. Revenues should be recognized when they are available to pay current liabilities of the entity. If the receivables are not available, the deferred revenue should be recorded instead in the liability section of the financial statements.

The FBOD has two different ways to account for the District Court's receivables that are based on revenue sources. These are:

- Receivables from probation fees are recorded routinely in the county's accounts receivable and financial systems.
- Receivables from non-time-pay and time-pay accounts are not routinely recorded in the county's accounts receivable and financial systems. FBOD records these receivables, which are obtained from the DISCIS, in the financial statements only at the end of the year. At that time, estimated allowance for doubtful accounts and deferred revenues associated with the District Court's receivables are also recorded.

To enhance consistency in recording receivables and provide better management control of receivables, as well as to conform to GAAP, the receivables from non-time-pay and time-pay accounts should be recorded routinely in the county's accounts receivable and financial systems rather than just at the end of the year.

The audit staff also noted that receivables from non-time-pay and time-pay accounts from city-filed cases are not recorded in the county's accounts receivable and financial systems.⁷ Because the District Court adjudicated these cases, it has "earned" a major portion of these receivables; thus, according to GAAP, these receivables should be recorded as assets. The county's benefit from these receivables is 75% of the gross receivables less the revenue splits with other funds; the remaining 25% portion is credited to the cities. Also, an appropriate allowance for uncollectible accounts and deferred revenue should be recorded. Appendix 2 shows the receivables from city-filed cases adjudicated by the District Court. About \$10,963,000 was not recorded as accounts receivable in the county's financial statements.

RECOMMENDATION

- 4-1** The FBOD should routinely and in a timely manner record all receivables from non-time-pay and time-pay accounts in the county's accounts receivable and financial systems.

Recovery of Unfunded State Mandates

The audit staff obtained information about the unfunded state mandates which represent costs incurred by the county for new programs and increased levels of service in response to new laws passed by the state legislature after July 1, 1995.

⁷ Non-time-pay and time-pay accounts are recorded in the District Court Information System (DISCIS).

State law (RCW 43.135.060) states in part:

“After July 1, 1995, the legislature shall not impose responsibility for new programs or increased levels of service under existing programs on any political subdivision of the state unless the subdivision is fully reimbursed by the state for the costs of the new programs or increases in service levels. Reimbursements by the state may be made by: (a) A specific appropriation; or (b) increases in state distributions of revenue to political subdivisions occurring after January 1, 1998.”

The Budget Office’s calculations show that in 2001, the cumulative cost of unfunded mandates amounted to \$15,108,000. Exhibit F shows that District Court’s share was \$2,575,000.

EXHIBIT F	
District Court Share of Unfunded State Mandates From 1995 to 2001	
Program	Amount
Changes in Domestic Violence Provisions	\$290,125
Increase in Jurisdiction Amount for Civil Cases	352,606
Limiting Deferred Prosecutions	41,888
Lost Revenues From Domestic Violence Filings	542,400
Revisions in Criminal History and Driving Records	393,887
Provisions to Offenses Involving Alcohol and Drugs	954,546
TOTAL	\$2,575,452

SOURCE: Budget Office

Our discussion with staff from the Budget Office, the Prosecuting Attorney Office, and council governmental relations indicated that reimbursement by the state is generally unlikely. To recover costs from state mandated new programs or increased level of services, the county may pursue the following options:

- Submit claims to the Washington State Office of Financial Management.

- File an action against the state.
- Request additional funding from the legislature.

We were advised that there are no formal guidelines on the pursuit of unfunded state mandates.
